2006
Annual Report

BLACK DIAMOND
INCOME FUND

BLACK DIAMOND INCOME FUND

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Highlights

For the period from inception on September 26, 2006 to December 31, 2006

Revenue	$5,608,565
Gross Profit	$3,699,680 (66%)
EBITDA (1)	$2,486,897 (44%)
Capital Expenditures	$15,260,512
Workforce Accommodation units in operation Utilization for the period	494 73%
Space Rental units in operation Utilization for the period	423 85%

(1) Refer to the "Non-GAAP Measures" section of the MD&A for further details.

Notice of Annual Meeting

The Annual Meeting of Black Diamond Income Fund will be held on Wednesday, May 2, 2007, at 3:00 p.m., at The Calgary Petroleum Club, McMurray Room, 319 5 Avenue SW, Calgary, AB T2P 0L5

Message From the President

On behalf of our Board of Directors and Management, I am pleased to present to you our first year end report for Black Diamond Income Fund ("Black Diamond"). This report is only for the short period from our initial public offering (IPO) on September 26, to our year ended December 31. The results which we present do however, demonstrate the levels of both profitability and EBITDA that Black Diamond is capable of achieving. The business of the Fund recorded a consolidated gross profit margin for the period of 66% and EBITDA (operating cashflow) margin of 44%. We are very pleased with these margins and believe that they are indicative of the base business that Black Diamond has established to date.

Growth

The fourth quarter was extremely active across our entire business platform. During this period we completed our largest capital expenditure program since the inception of Black Diamond, as a private company, in 2003. This program amounted to $15.3 million and resulted in the addition of 274 newly manufactured modular units to our rental fleets. This represents a 43% growth in assets in the fourth quarter alone. Including the fleet growth undertaken by the business prior to the IPO, a total of 562 units, representing an increase of 158%, were added in 2006. Due to the efforts and diligence of our manufacturing partners and our fleet managers, this capital program was completed both on schedule and on budget.

Substantially all of these new assets were very quickly deployed into our primary markets. Correspondingly, our year end consolidated rental fleet consisted of 917 units operating over 80% utilization. We are confident that the full effect of our substantially increased rental fleets and our high rate of utilization will be evident in the Fund's results throughout 2007.

Balance

We have a variety of types of modular structures to offer our customers, each providing a solution to a particular accommodation or workspace need. In order to best manage our business, we have segmented our asset portfolios by types of equipment. This enables us to more quickly respond to our markets and thereby position Black Diamond to take advantage of opportunities and trends.

Our two main asset segments are workforce accommodation, and temporary workspace and storage. Accordingly, we have assembled separate management teams to operate these two divisions. Workforce accommodation is operated as Black Diamond Camps, while temporary workspace and storage is operated as BOXX Modular.

Black Diamond Camps primarily serves the resource industries in Western Canada. While oil sands related projects currently make up approximately 55% of our revenues, our products may also be utilized by mining, forestry, infrastructure construction, pipeline construction, and others. Black Diamond Camps offers a cost effective solution for housing a labour force in areas where little or no local infrastructure is available. Our customers demand high quality facilities, which can be cost effectively transported, assembled, operated, and then removed at the completion of their project. Historically, the demand for these products and services follows the supply and demand cycle of base metals, oil and gas.

BOXX Modular serves a variety of markets including general construction, industrial manufacturing, and commercial businesses. We offer a cost effective solution for providing additional or temporary space. This business has a very broad customer base spanning both remote and urban areas. This business lends itself to geographic growth, which is why we have established operations in Southern Ontario, which represents the largest urban market in Canada for workspace rentals. Historically, the demand for these products and services is relatively stable given the wide variety of uses and customers. The expedient supply of additional space is valued in times of economic expansion whereas the cost effectiveness of temporary space is valued in slower economic periods.

We are establishing balance by growing the BOXX Modular fleet as a meaningful counter-balance to the commodity price cycle exposure of Black Diamond Camps. In addition, we continue to build our Ontario business as a means of diversifying our geographic concentration. We continue to over-weight our Camps rental fleet towards large construction camps which offer longer-term contracts and fewer competitors, while under-weighting drilling related equipment such as drill camps and wellsites which are subject to seasonal volatility and increasing competition. We believe that this careful allocation of capital within our fleets, and asset segments, will be an important factor in the long term performance of our business.

Sustainability

Balance between and within our rental fleets is one piece of the puzzle for delivering sustainability, but we must also exercise discipline in order to reduce seasonal volatility. We have done this by offering our customers a value proposition. We provide the customer with a lower cost for their accommodation and workspace requirements in return for a longer guaranteed rental term. At the year-end our Black Diamond Camps division had an average outstanding contract term in excess of 30 months. This provides management with a high degree of visibility regarding future revenue and cash flows. This visibility is further strengthened by the quality and credibility of our largest customers.

We believe that the product of this equation, which combines a diversified rental fleet, long term rental contracts and a high quality customer base, will be sustainable revenues and distributable cashflow for Black Diamond.

Value Added Revenue Streams

In basic terms, Black Diamond rents buildings on a triple net basis with all mobilization, installation and operating costs being borne by the customer. From this basis we are able to offer many services to our customers over and above the primary rental agreement. These include; logistics management, rental of furniture and equipment, provision of communications and entertainment services such as satellite television, internet, and telephone; services for installation and dismantle; rental of power generation, water storage, and waste water management systems; and services for maintaining the equipment while in operation.

We have organized the Black Diamond Site Services division for the purpose of providing installation, dismantle, repair and maintenance services to our customers. With a dedicated management team and a talented core of field technicians, this division has consistently delivered 35% gross margins and has generated over 13% of our revenues. We anticipate that this division will continue to grow in concert with our rental divisions.

These additional services are an important part of our business strategy as they provide valuable turnkey solutions to our customers while generating non-capital intensive revenue and cash flow to the Fund. We will continue to focus on developing these services and others as we grow our business platform.

Looking Ahead

We believe that our business model will be more profitable and will generate higher levels of operating cash flow with scale. To this end, we believe that the Fund can grow its asset base by over 40% this year. Accordingly, we have dedicated approximately $25 million towards capital asset additions in 2007. The bulk of this growth will be organic through the purchase of new manufactured rental units. However, we continue to seek accretive acquisitions and remain optimistic that we will be successful in completing at least one transaction in 2007.

We anticipate maintaining our monthly distribution at its current rate of $0.0833. We believe that this distribution will represent between 50-60% of our EBITDA for 2007. We further anticipate that all of our distributions for 2007 will be deemed a return of capital and therefore non-taxable.

In Appreciation

At the core of our success is our most valuable resource, our people. I believe that we have an exceptional team of very talented people who will continue to deliver better than industry results, be the first to deliver innovative ideas to our industry and continue to set the benchmark for integrity and performance.

In Closing

I want to thank you for your investment in Black Diamond Income Fund. I assure you that everyone at Black Diamond is working very hard to ensure that your trust in us is rewarded by continued monthly distributions and through the long-term appreciation of your Fund Units.

Sincerely,

Trevor Haynes
President & Chief Executive Officer

Our Business

We are in the business of renting modular structures for use as workforce accommodation and temporary work space. We also provide complementary services for the transportation, installation, dismantling, repair and maintenance of modular structures. We have been in the business of renting modular structures since 2003 and currently conduct our business through three operating divisions.

Black Diamond Limited Partnership

- **Black Diamond Camps**
- **BOXX Modular**
- **Black Diamond Site Services**

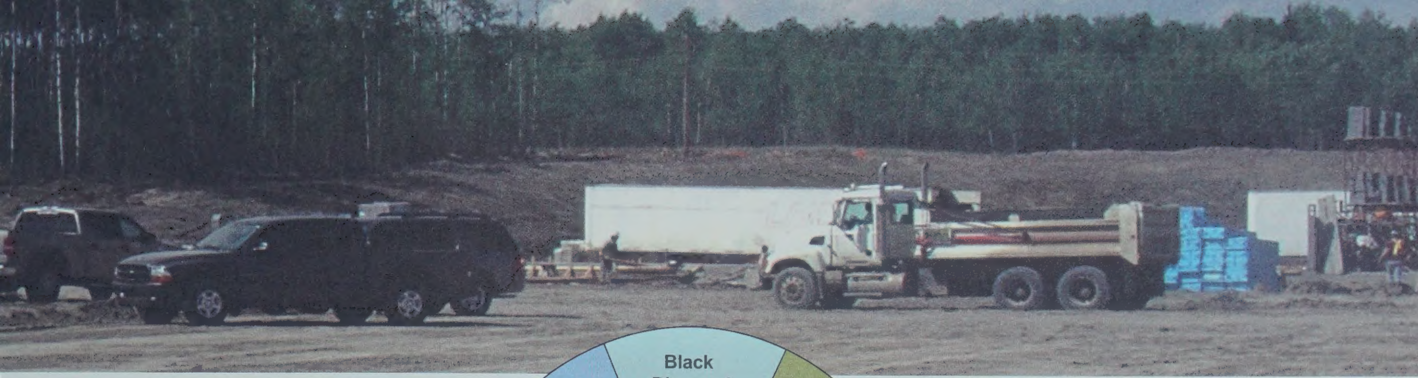
Black Diamond Camps: Provides workforce accommodation solutions to a diversified customer base which includes companies involved in oil and gas; oil sands projects; large infrastructure projects; mining; military; and construction.

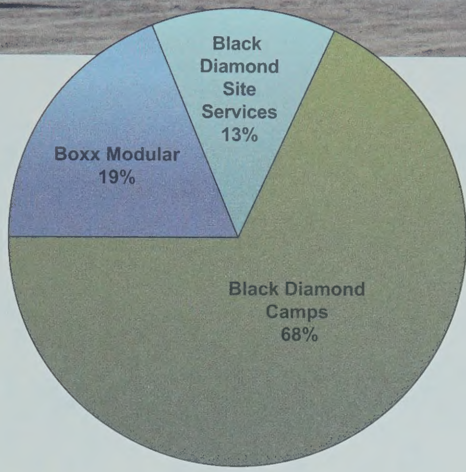
BOXX Modular: Provides modular space solutions for use as offices; storage systems; training facilities; restrooms; and general workspace to a wide variety of customers in many industries.

Black Diamond Site Services: Provides services for the install, dismantle, repair and maintenance of modular structures for a variety of customers including modular fleet operators and end users.

Business Segments by Location

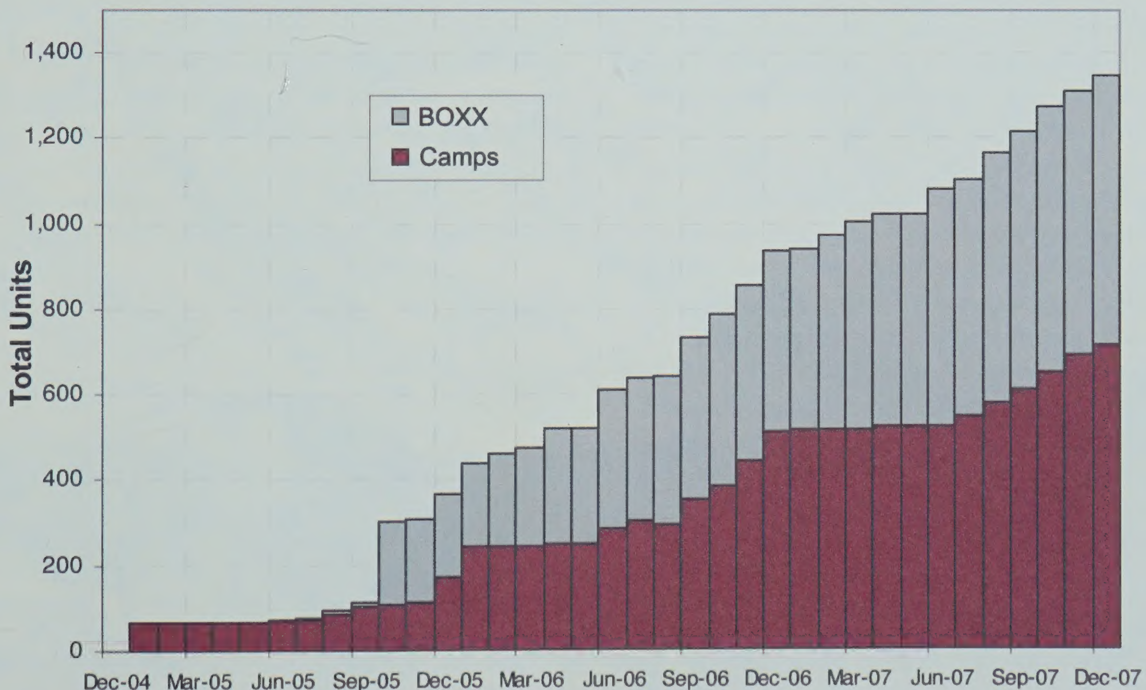
Source: Company Reports





Business Segments by Revenue

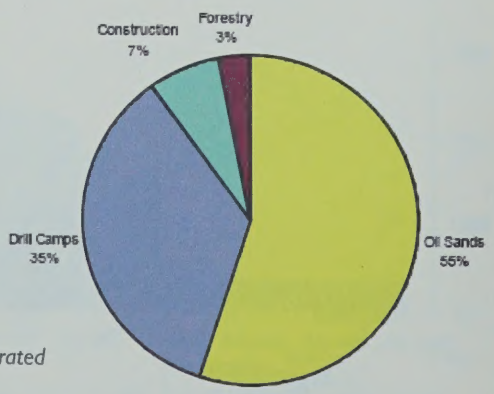
Black Diamond Fleet Growth



Source: Company Reports, RJ Research estimates and analysis

Black Diamond Camps

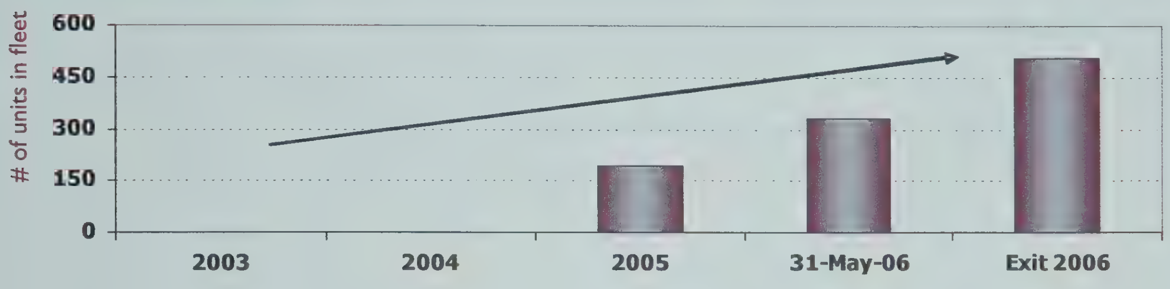
Founded in 2003, we have grown organically through the procurement of new manufactured rental equipment. Operating primarily in Western Canada, we provide high quality, cost effective workforce accommodation solutions to a diversified client base which includes oil and gas exploration and development companies, large catering and food services providers, engineering and construction companies, drillers, general contractors, pipeline constructors and municipal, provincial and federal governments. Our products include large dormitories, kitchen/diner complexes, recreation facilities, drill camps, completions camps, free standing sleepers, geologist/engineer quarters and staff quarters. We offer our customers flexible and expedient solutions to accommodating their workforce in remote locations where local accommodation infrastructure is either insufficient or non-existent. As at December 31, 2006, our rental fleet consisted of 494 units representing approximately 3,000 beds. We have additional manufacturing commitments in place for delivery throughout 2007, which will increase our fleet to approximately 668 units representing approximately 4,000 beds. In addition to rental units, we offer both new and used units for sale and provide delivery, installation, project management, and ancillary products and services.



A majority of our Camps revenue is generated in the oil sands region in Alberta.

No Matter Where Your Project Takes You...

Black Diamond Fleet Growth



We continue to grow our accommodations rental fleet at a significant rate.

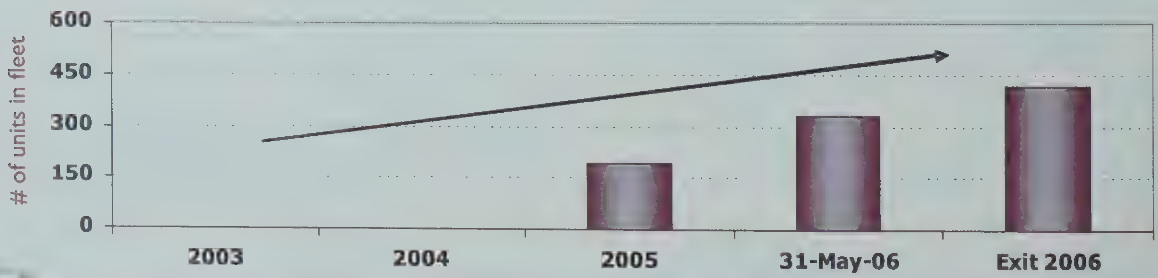
On a revenue basis, Black Diamond's camp fleet is weighted 65% towards larger construction camps.

BOXX Modular

Founded in 2005, BOXX Modular has experienced rapid growth for temporary office, storage, lunchroom, washroom, security kiosks, and related uses. We have grown both organically through the procurement of new manufactured rental equipment and through the acquisition of existing fleet equipment. Operating from branch offices in both Edmonton, Alberta, and St. Catharines, Ontario, as well as our head office in Calgary, Alberta, we provide high quality, cost effective modular space solutions to a diversified client base which includes general contractors, construction trades, real estate developers, manufacturers, commercial businesses, government agencies, and various companies involved in the oil and gas industry. Our products include "single wide" office units, guard kiosks, storage units, office complexes, training (classroom) facilities, and custom manufactured structures. These products offer our customers flexible and expedient solutions to meet their temporary workspace and storage needs. In order to provide our customers with turnkey solutions, we also offer ancillary rental items such as furniture and office equipment, as well as services for delivery and installation. We also sell custom manufactured and used equipment to our customers.

As at December 31, 2006, our rental fleet consisted of 423 units of which 211 were located in Southern Ontario, and 212 were located in Alberta. We have additional manufacturing commitments in place for delivery throughout 2007 which will increase our fleet to approximately 633 units.

Growth of BOXX Modular

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Founded in 2005, Black Diamond Site Services repairs, installs, dismantles and renovates modular buildings. These services are provided to workforce housing and space rental fleet operators in Western Canada. Our intention in establishing this business was to create a service division that would provide its expertise to the drilling and catering companies that own and operate workforce housing equipment in the oil and gas sector. These services are also used to maintain Black Diamond's rental equipment, allowing us to better control the quality of our fleet and our capital maintenance costs. We strongly believe that a rigorous maintenance program will prolong the life and value of the Black Diamond rental fleets.

As of December 31, 2006, this business had grown to nine full time service trucks and over 20 full time service staff. Despite its short history, Black Diamond Site Services has established a strong client base and a loyal, experienced workforce.

Consolidated Financial Statements

Black Diamond Income Fund

For the period from Inception on September 26, 2006 to December 31, 2006

Auditors' Report

To the Unitholders of

Black Diamond Income Fund

We have audited the consolidated balance sheet of **Black Diamond Income Fund** as at December 31, 2006 and the consolidated statements of earnings and accumulated earnings(loss) and cash flows for the period from inception on September 26, 2006 to December 31, 2006. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and the results of its operations and its cash flows for the period from inception on September 26, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
February 23, 2007

Black Diamond Income Fund
Consolidated Balance Sheet

As at December 31, 2006

	$
Assets *[notes 6 & 7]*	
Current	
Cash	451,390
Accounts receivable *[note 12]*	4,699,171
Prepaid expenses	264,341
	5,414,902
Property and equipment *[note 4]*	45,280,207
Intangibles *[note 5]*	12,706,270
Goodwill	29,316,090
	92,717,469
Liabilities And Unitholders' Equity	
Current	
Accounts payable and accrued liabilities	2,427,818
Distributions payable *[note 10]*	641,410
	3,069,228
Long-term debt *[note 7]*	15,669,888
Due to related party *[note 13]*	882,841
	19,376,957
Commitments *[notes 15 &16]*	
Unitholders' equity	
Trust units and exchangeable partnership units *[note 8]*	74,039,294
Contributed surplus *[note 9]*	13,874
Accumulated earnings (loss), net of accumulated distributions	(957,646)
	73,095,512
	92,717,469

See accompanying notes to the consolidated financial statements

On behalf of the Board

Minaz Kassam
Director

Dave Butler
Director

Black Diamond Income Fund

Consolidated Statement Of Earnings And Accumulated Earnings(Loss)

For the period from inception on September 26, 2006 to December 31, 2006

	2006 $
Revenue	5,608,565
Direct costs	1,908,885
	3,699,680
Expenses	
Selling, general and administrative costs	1,198,909
Amortization of property and equipment	815,504
Amortization of intangibles and deferred financing fees	356,115
Interest on long-term debt	263,234
Stock-based compensation *[note 8]*	13,874
	2,647,636
Net income	1,052,044
Accumulated earnings, beginning of period	—
Distributions declared *[note 10]*	(2,009,700)
Accumulated earnings (loss), end of period	(957,656)
Earnings per unit *[note 8]*	
Basic and Diluted	0.14

See accompanying notes to the consolidated financial statements

Black Diamond Income Fund
Consolidated Statement Of Cash Flows

For the period from inception on September 26, 2006 to December 31, 2006

	2006 $
Operating activities	
Net income	1,052,044
Add (deduct) non-cash items:	
Amortization of property and equipment	815,504
Amortization of intangibles and deferred financing costs	356,115
Stock-based compensation expense	13,874
	2,237,537
Change in non-cash working capital related to operating activities *[note 11]*	(809,273)
	1,428,264
Investing activities	
Purchase of property and equipment	(15,260,512)
Business acquisition *[note 3]*	(15,000,000)
	(30,260,512)
Financing activities	
Proceeds from long-term debt	15,669,888
Repayment of overdraft and long-term debt assumed *[note 3]*	(17,057,254)
Distribution payments	(1,368,290)
Net proceeds from issuance of units	32,039,294
	29,283,638
Increase in cash	451,390
Cash, beginning of period	—
Cash, end of period	451,390

See accompanying notes to the consolidated financial statements

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

1. Organization And Nature Of Business

Black Diamond Income Fund (the "Fund") is an unincorporated, open-ended trust established under the laws of the Province of Alberta and was created by the Fund Trust Indenture dated August 16, 2006. The Fund was established to complete an initial public offering (the "Offering") of Units and to indirectly acquire (the "Acquisition") certain assets and liabilities and the business operations of Black Diamond Leasing Inc. (the "Business"). The Fund holds, indirectly, 69.4% of the limited partnership units of Black Diamond Limited Partnership (the "Limited Partnership"), a limited partnership established under the laws of Alberta. Principals of Black Diamond Leasing Inc. own the remaining 30.6% interest in the Limited Partnership through their ownership of Exchangeable Partnership Units. Black Diamond Group Inc. (the "Manager") is a wholly owned subsidiary of the Fund incorporated under the laws of the Province of Alberta. The Manager was created to act as the general partner of Black Diamond Partnership and the administrator of the Fund.

On September 26, 2006, the Fund, in conjunction with the acquisition of the Business, completed the Offering of 3,500,000 trust units for $10 per trust unit. The gross proceeds from the Offering were $35 million. The net proceeds of $32.04 million were used as follows: $15 million in a secondary offering to purchase shares held by shareholders of Black Diamond Leasing Inc., $17 million in the repayment of debt facilities assumed upon the acquisition of the Business, and the remainder as an addition to working capital.

The Fund rents and sells modular structures for use as workforce housing, temporary office space rentals and provides site services to various industries.

2. Significant Accounting Policies

The consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The nature of the business and timely preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions, the estimated useful lives of property and equipment, the fair value of the identifiable assets acquired in business combinations, the fair value of unit based compensation awards and the future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes. Accordingly, actual results may differ from estimated amounts. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

The Fund commenced operations on September 26, 2006 with the acquisition of the Business, therefore, no comparative financial information is provided.

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

2. Significant Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements include the accounts of the Fund, its Manager and the Limited Partnership. All significant inter-company balances and transactions have been eliminated.

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Computers, furniture and service equipment	30% declining balance method
Space rentals fleet equipment	6% declining balance method
Work-force housing fleet equipment	10% declining balance method
Leasehold Improvements	Straight line over term of the lease

Impairment of long-lived assets

Long-lived assets are to be tested for recoverability whenever events or changes in circumstances occur that would indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived assets' carrying amount exceeds it fair value. The Fund assesses fair value by determining the replacement cost of the assets. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent.

Intangible Assets

Acquired intangible assets with finite lives are recorded at cost and amortized over their estimated useful lives at the following rates and methods:

Customer Relationships -Camps	20 years straight-line
Customer Relationships -Services	4 years straight-line
Supplier Commitments	5 years straight-line

The Fund tests for possible impairment of intangible assets any time events or changes in circumstances occur that would indicate possible impairment in the carrying value.

For the period from inception on September 26, 2006 to December 31, 2006

2. Significant Accounting Policies (continued)

Goodwill

Goodwill results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired less liabilities assumed on a fair value basis. Goodwill is allocated as at the date of acquisition to the reporting units of the Fund's operations that are expected to benefit from the business combination. Goodwill is not amortized, but is evaluated on an annual basis for impairment by comparing the fair value of the reporting unit, determined on a discounted cash flow basis, to the carrying value. If the carrying value of the reporting unit was to exceed its fair value, the Fund would perform the second step of the impairment test which compares the implied fair value of the reporting unit's goodwill by deducting the fair value of all the tangible and intangible net assets of the reporting unit from the fair value of the reporting unit.

The implied fair value of goodwill is then compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, the Fund recognizes an impairment loss equal to the difference.

Per unit amounts

Basic earnings per unit amounts are computed by dividing net income by the weighted average number of units outstanding during the period and is calculated on the basis that all outstanding exchangeable limited partnership units have been converted into Fund units at the beginning of the period. The treasury stock method is used to determine the diluted per unit amounts. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of outstanding, in the money options are used to purchase units of the Fund at their estimated average market price during the period, and the difference between the Fund units issued upon the exercise of the options and the number of options obtainable under this option, on a weighted average basis, is added to the number of units outstanding. Antidilutive options are not considered in computing diluted earnings per unit.

Income Taxes

Under the Income Tax Act (Canada), the Fund qualifies as a mutual fund trust. As a result, the Fund is not subject to tax to the extent that its taxable income in a year is paid or payable to its Unitholders. Accordingly, no provision for income taxes has been made in respect of the assets and liabilities of the Fund.

Incorporated subsidiaries of the Fund follow the liability method of accounting for future income taxes. Under this method, temporary differences arising from the differences between the tax base of assets or liabilities and their carrying amounts on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods when the temporary differences are expected to reverse.

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

2. Significant Accounting Policies (continued)

Unit-based compensation

The Fund maintains a unit-based compensation plan, which is described in Note 8. Options granted to employees, officers and directors are accounted for using the settlement method whereby the compensation expense is recorded based on the fair values when the options are granted. Any consideration paid on the exercise of the options plus the attributable contributed surplus is credited to unit capital at the time of exercise.

Lease obligations

Leases are classified as capital or operating. A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of the capital lease, an asset and an obligation is recorded at the amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the commencement date of the lease. All other leases are accounted for as operating and the payments are expense as incurred. The Fund has not entered into any capital leases to date.

Revenue recognition

Revenue is earned by providing workforce accommodation and space rental units on a day rate or monthly rate basis. Revenue is recognized evenly over the life of the rental agreement as the rental units are rendered to customers, amounts are determinable and collection is reasonably assured.

Revenue is earned by providing installation, transportation, maintenance and dismantlement services. Revenue is recognized upon the conclusion of the services provided to the customers when the amounts are determinable and collection is reasonably assured.

Revenue from the sale of new units and used rental equipment, including delivery and installation revenue, is generally recognized at the time the units are delivered to the customer and when the amounts are determinable and collection is reasonably assured.

For the period from inception on September 26, 2006 to December 31, 2006

3. Business Acquisition

On September 26, 2006 the Fund used the net proceeds from the previously noted IPO to acquire a 65.7% interest in the Limited Partnership. The acquisition was accounted for using the purchase method. The fair values of the assets acquired and liabilities assumed are as follows:

Assets acquired:	
	$
Working capital	843,580
Equipment	30,835,199
Other long term assets	108,785
Intangible and other assets	12,953,600
Goodwill	29,316,090
	74,057,254
Liabilities assumed:	
Assumed debt	(17,057,254)
Net assets acquired	57,000,000
Retained vendor interest:	
Exchangeable partnership units	(42,000,000)
Cash funded by IPO	15,000,000

The results of operations of the Limited Partnership and its subsidiaries have been included in the Fund's consolidated financial statements from September 26, 2006 forward.

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

4. Property And Equipment

	December 31, 2006		
	Cost	Accumulated Amortization	Net book value
	$	$	$
Computers, furniture and service equipment	260,787	18,098	242,689
Space rentals fleet equipment	8,789,588	128,755	8,660,833
Workforce housing fleet equipment	36,587,868	668,652	35,919,217
Leasehold improvements	3,962	—	3,962
Deposit on equipment	453,506	—	453,506
	46,095,711	**815,504**	**45,280,297**

Deposits on equipment are not subject to amortization

5. Intangibles

	December 31, 2006		
	Cost	Accumulated Amortization	Net book value
	$	$	$
Customers contracts	10,951,200	147,210	10,803,990
Supply commitments	2,002,400	100,120	1,902,280
	12,953,600	**247,330**	**12,706,270**

6. Operating Facility

The Fund has a revolving demand loan authorized to a maximum of $2,000,000 or 75% of recoverable Canadian accounts receivable under 90 days old, accessible in multiples of $100,000. The facility bears interest at bank prime plus 0.50% per annum (December 31, 2006 -effective rate of 6.25%) and is payable on demand. The facility is collateralized by a general security agreement, general assignment of book debts, promissory notes, letters of guarantee from each of the Fund's two subsidiary entities and assignment of monies due from insurance. As at December 31, 2006, no amounts have been drawn on this facility.

For the period from inception on September 26, 2006 to December 31, 2006

7. Long-term Debt

	December 31, 2006
	$
Committed Revolving Capex facility bearing interest at bank prime plus 1% per annum (December 31, 2006 -effective rate of 6.75%). The committed facility is $30,000,000 to April 30, 2008 and may not exceed 60% of net book value of fixed assets. No set principal repayment has been established as the facility is interest only payable monthly in arrears until March 31, 2008. The facility is collateralized by a general security agreement, general assignment of book debts, promissory notes, letters of guarantee from each of the Fund's two subsidiary entities and assignment of monies due from insurance.	15,669,888
	15,669,888
Amounts payable within one year	—
	15,669,888

8. Trust Units And Exchangeable Partnership Units

a) Authorized:

An unlimited number of Trust units

An unlimited amount of Exchangeable Partnership Units

b) Issued:

Trust Units	Number	Amount
Issued on Initial Public Offering	3,500,000	$35,000,000
Issued on exchange of exchangeable partnership units	1,845,174	18,451,740
Issue costs		(2,960,706)
Balance December 31, 2006	**5,345,174**	**$50,491,034**

Exchangeable Partnership Units		
Issued on Initial Public Offering	4,200,000	$42,000,000
Exchanged for Trust units	(1,845,174)	(18,451,740)
Balance December 31, 2006	**2,354,826**	**$23,548,260**
Total		**$74,039,294**

i) Trust Units. Each Trust Unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or wind-up of the Fund. All Trust units have voting rights and privileges.

Black Diamond Income Fund

Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

8. Trust Units And Exchangeable Partnership Units (Continued)

ii) Exchangeable Partnership Units. The Exchangeable Partnership Units issued by the Limited Partnership have economic and voting rights equal, in all material respects, to the Trust Units. As a result, they have been treated for accounting purposes as Trust Unit equivalents. They are exchangeable on a one for one basis for Trust Units at the option of the holder. Exchangeable Partnership Units are not transferable to any third parties prior to their conversion to Trust units. Each Exchangeable Partnership Unit entitles the holder to receive distributions from Black Diamond Limited Partnership pro rata with the distributions made to holders of Trust Units.

c) Trust Unit Option Plan

The Fund established a Trust Unit Option Plan in September 2006 providing for the issuance of units. At December 31, 2006, a total of 770,000 options to purchase trust units are reserved to be granted for issuance to employees, directors and key executives. Of the amount reserved, 296,120 options have been granted. Under the plan, the exercise price of each option equals the market value of the Trust units on the date of the grant. Options granted under the plan vest equally over three years and the option term is five years from the date of grant.

Prior to the Offering, as an incentive to retain certain key employees, Black Diamond Leasing Inc. issued an aggregate of 40,000 options to acquire common shares of Black Diamond Leasing Inc., each option having an exercise price of $17.22 per share, expiring June 8, 2011 and vesting as to on each of the first, second and third anniversaries from the date of grant. As part of the Acquisition, the Fund assumed the obligations of these options at a conversion rate of 2.1525 for Trust Units rather than common shares of Black Diamond Leasing Inc. on substantially the same terms as the original option grants.

The following table summarizes information about outstanding and exercisable unit options:

	Number of options outstanding	**Weighted average exercise price $**
Options assumed on Acquisition	86,120	8.00
Granted	210,000	10.00
Exercised	—	—
Balance, end of period	**296,120**	**9.42**

For the period from inception on September 26, 2006 to December 31, 2006

8. Trust Units And Exchangeable Partnership Units (Continued)

As at December 31, 2006, none of the unit options outstanding are exercisable and expire as follows:

Exercise price	Options outstanding	Weighted average remaining contractual life (years)
$ 8.00	86,120	4.44
$10.00	210,000	4.81
	296,120	

During the period ended December 31, 2006, the Fund recorded unit-based compensation expense of $13,874 related to options granted and vested under the plan. The fair value of the options issued during the period ended December 31, 2006 was estimated using the Black-Scholes pricing model and resulted in a fair value of $1.01 with the following assumptions:

Date of grant	Dividend yield %	Expected average volatility %	Average risk-fee rate %	Expected life (years)
September 26, 2006	10	35	4.00	5
October 20, 2006	10	35	4.00	5

d) Earnings per Unit

The basic and diluted weighted average number of Trust Units outstanding for the period was 7,700,000. Due to the market value of the Trust Units being below the exercise prices of all options outstanding as at December 31, 2006, no dilutive effect has been calculated or presented.

9. Contributed Surplus

	$
Balance, beginning of period	—
Stock-based compensation expense	13,874
Balance, end of period	**13,874**

Black Diamond Income Fund

Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

10. Accumulated Distributions

Cash distributions are normally paid by the Fund on a monthly basis to Unitholders of record on the last business day of each month. Distributions are payable on or about the 15th day of the month following the record date. The following table summarizes the Fund's distributions on units of record during the period from inception on September 26, 2006 to December 31, 2006:

Record Date	Distribution per Unit ($)	Distributions ($)
September 30, 2006	0.0111	85,470
October 31, 2006	0.0833	641,410
November 30, 2006	0.0833	641,410
December 31, 2006	0.0833	641,410
Balance, end of period		**2,009,700**

On October 31, 2006 the Federal Minister of Finance proposed to apply a tax at the fund level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. Assuming the October 31 proposals are ultimately enacted in their form, the implementation of such legislation would be expected to result in adverse tax consequences to the Fund and certain Unitholders (including most particularly Unitholders that are tax deferred or non-residents of Canada) and may impact future cash distributions from the Fund.

11. Supplemental Cash Flow Information

Changes in non-cash working capital for the period ended December 31, 2006 was as follows:

Accounts receivable	$(4,699,171)
Prepaid expenses	(264,341)
Accounts payable and accrued liabilities	2,427,818
Amounts owed to related party	882,841
	(1,652,853)
Less non-cash working capital acquired *[note 3]*	843,580
	$(809,273)
Interest paid in the period	$263,264

For the period from inception on September 26, 2006 to December 31, 2006

12. Financial Instruments

a) Credit Risk

Credit risk arises from the possibility that the entities to which the Fund provides rentals and/or service are unable to meet their obligations. The Fund manages this risk by assessing the credit worthiness of its customers on an ongoing basis and by monitoring the age of balances outstanding. To date, the Fund's bad debts have been within expectations and are limited to specific customer circumstances.

As at December 31, 2006, 29% of the Fund's consolidated accounts receivable are owed from one customer. This customer is a significant customer of the Fund and is considered to have high credit worthiness.

b) Interest Rate Risk

The Fund is subject to interest rate risk on its credit facilities because they are based on floating rates of interest. The required cash flow to service the credit facilities will fluctuate as a result of changes in market rates. The Fund has not entered into any derivative agreements to mitigate these risks.

c) Fair Values of Financial Instruments

Financial instruments of the Fund consist mainly of cash, accounts receivable, accounts payable, distribution payable, long term debt and amounts due to related parties. As at December 31, 2006, there are no significant differences between the carrying amounts of these accounts on the balance sheet and their estimated fair value due to the nature of the accounts.

13. Related Party Transactions

During the period, the Fund did not conduct any operational business with any related parties. As a result of the payment for the business acquired from Black Diamond Leasing Inc. and the transition of the cash management at the time of the purchase transaction, as well as the accrued distribution owing at December 31, 2006 on the Exchangeable Partnership Units, the Fund owes Black Diamond Leasing Inc. $0.88 million. Black Diamond Leasing Inc. is related to the Fund due to the common members of the Board of Directors of that entity and the Fund.

14. Segmented Information

The Fund determines its reportable segments based on the structure of its operations, which are primarily focused in three principal business segments – Workforce Accommodations, Space Rentals and Site Services.

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

For the period from inception on September 26, 2006 to December 31, 2006

14. Segmented Information (Continued)

Workforce Accommodations provides modular structures designed for remote site accommodation. The structures when assembled together form large dormitories, kitchen/diner facilities, recreation complexes, drill camps, completion camps, free standing sleepers, geologist/engineer quarters and staff quarters. The majority of the equipment in this segment operates in Alberta.

Space Rentals provides high quality, cost effective modular space solutions to a diverse customer base in Alberta and Southern Ontario. The structures provided include office units, guard kiosks, storage units, office complexes, training facilities and custom manufactured structures.

Site Services repairs, installs, dismantles and renovates modular buildings. These services are provided to modular building fleet operators in Alberta and Northeastern British Columbia. In addition, these services are provided to the Workforce Accommodation and Space Rental customers as part of turnkey solutions.

For the period from inception on September 26, 2006 to December 31, 2006, the Fund did not earn any revenues outside of Canada.

Accounting policies for each of the segments are the same as those described in Note 2. Inter-segment revenues are eliminated as disclosed in the following chart.

Revenue	
Workforce Accommodations	3,813,121
Space Rentals	1,051,150
Site Services	1,288,099
Intersegment eliminations [(1)]	(543,805)
	5,608,565

(1) All intersegment revenue eliminated is in respect of the Site Services segment providing services to the Workforce Accommodations and Space Rentals segments.

Net Income	
Workforce Accommodations	1,027,169
Space Rentals	142,110
Site Services	113,557
Corporate and other	(230,792)
	1,052,044

Capital Expenditures	
Workforce Accommodations	13,058,786
Space Rentals	2,181,867
Site Services	8,281
Corporate and other	11,578
	15,260,512

For the period from inception on September 26, 2006 to December 31, 2006

14. Segmented Information (Continued)

Property and Equipment (net)	
Workforce Accommodations	35,949,002
Space Rentals	9,143,961
Site Services	84,329
Corporate and other	102,915
	45,280,207
Intangible Assets (net)	
Workforce Accommodations	12,375,970
Space Rentals	136,800
Site Services	193,500
Corporate and other	—
	12,706,270
Goodwill	
Workforce Accommodations	24,277,756
Space Rentals	4,845,037
Site Services	193,297
Corporate and other	—
	29,316,090
Total Assets	
Workforce Accommodations	38,769,771
Space Rentals	9,905,406
Site Services	713,291
Corporate and other	43,329,001
	92,717,469

Black Diamond Income Fund
Notes To The Consolidated Financial Statements

15. Commitments

The Fund rents premises under multiple operating leases with varying expiration dates. The minimum lease payments under these leases over the next five fiscal years are as follows:

	$
2007	539,609
2008	522,007
2009	439,320
2010	439,320
2011	464,424
	2,404,681

The Fund has committed to purchase $20,021,478 of fleet equipment for delivery throughout 2007.

16. Subsequent Event

Effective January 15, 2007, the Fund entered into an agreement to lease 8.23 acres of land in Edmonton for a 7 year period. This space will be used as a yard for the mobile structures to be stored when they are off rent and will be fitted with a shop in which some of maintenance of the units will take place.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of February 26, 2007, and is provided to assist readers in understanding Black Diamond Income Fund's financial performance for the period from September 26, 2006, to December 31, 2006, and significant trends that may affect future performance of the Fund. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes as well as the Fund's Annual Information Form ("AIF"). The accompanying consolidated financial statements of Black Diamond Income Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's units trade on the Toronto Stock Exchange under the symbol "BDI. UN".

Additional information relating to Black Diamond Income Fund, including the AIF, may be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

This MD&A may contain certain "forward looking statements". These statements relate to future events or future performance and reflect our expectations and belief regarding our growth, results of operations, performance, business prospects, opportunities or industry performance and trends. These forward looking statements reflect our current internal projections, expectations or beliefs and are based on information currently available to us. In some cases, forward looking statements can be identified by words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these words or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. Actual results may differ materially from any forward looking statement. Although we believe that the forward looking statements contained in this MD&A are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A, and we do not assume any obligation to update or revise them to reflect new events or circumstances, except as required pursuant to applicable securities laws.

Overview Of The Fund

Black Diamond Income Fund (the "Fund") is an unincorporated, open-ended trust established under the laws of the Province of Alberta and was created by the Fund Trust Indenture dated August 16, 2006. The Fund was established to complete an initial public offering (the "Offering") of Units and to indirectly acquire (the "Acquisition") certain assets and liabilities and the business operations of Black Diamond Leasing Inc. (the "Business"). The Fund holds, indirectly, 69.4% of the limited partnership units of Black Diamond Limited Partnership ("the Limited Partnership"), a limited partnership established under the laws of Alberta. Black Diamond Commercial Trust (the "Commercial Trust") is an unincorporated, open-ended trust established under the laws of the Province of Alberta created under a Trust Indenture dated August 16, 2006. The Commercial Trust was established to acquire and hold units of the Limited Partnership. Principals of Black Diamond Leasing Inc. own the remaining 30.6% interest in the Limited Partnership through their ownership of Exchangeable Partnership Units. Black Diamond Group Inc. (the "Manager") is a wholly owned subsidiary of the Fund incorporated under the laws of the Province of Alberta. The Manager was created to act as the general partner of Black Diamond Partnership and the administrator of the Fund and the Commercial Trust.

On September 26, 2006, the Fund, in conjunction with the acquisition of the Business, completed the Offering of trust units for $10 per trust unit. The gross proceeds from the Offering were $35 million. The net proceeds of $32.1 million were used as follows: $15 million to purchase shares held by shareholders of Black Diamond Leasing Inc., $17 million in the repayment of debt facilities assumed upon the acquisition of the Business, and the remainder as an addition to working capital.

The Fund has structured its operations in three principal business segments – Workforce Accommodations, Space Rentals and Site Services.

Workforce Accommodations provides modular structures designed for remote site accommodation. The structures when assembled together form large dormitories, kitchen/diner facilities, recreation complexes, drill camps, completions camps, free standing sleepers, geologist/engineer quarters and staff quarters. The majority of the equipment in this segment operates in Alberta.

Space Rentals provides high quality, cost effective modular space solutions to a diverse customer base in Alberta and Southern Ontario. The structures provided include office units, guard kiosks, storage units, office complexes, training facilities and custom manufactured structures.

Site Services repairs, installs, dismantles and renovates modular buildings. These services are provided to modular building fleet operators in Alberta and Northeastern British Columbia. In addition, these services are provided to the Workforce Accommodation and Space Rental customers as part of turnkey solutions.

Highlights Of The Fund To December 31, 2006

Results of the Fund for the period from inception on September 26, 2006, to December 31, 2006, were positive and in line with management's expectations. The results reflect the strong demand for the Fund's fleet of modular structures used for both workforce accommodations and temporary space rentals. The site services division also generated revenues and margins in line with expectations.

Notable activities for the period included the successful closing of the Fund's initial public offering on September 26, 2006. As noted above, this involved the sale of 3.5 million units to the public at a price of $10 per unit. In concert with the IPO was the completion of the purchase of the business from Black Diamond Leasing Inc., a privately held organization. The proceeds of the offering being used to repay debt facilities assumed with the purchase of the business and the funding of the secondary offering.

Another notable activity in the period was the conclusion of a new credit facility. The new credit facilities, which aggregate to $32 million, replaced the previous $24 million facility. The new credit facilities consist of a $2 million Committed Revolving Operating facility and a $30 million Committed Capital Expenditure facility. The new facilities are secured by substantially all of the assets of the Fund and include customary terms and conditions. These new credit facilities will be used to facilitate future growth initiatives of Black Diamond.

Finally, the Fund signed a long-term management contract for the provision of field camps, worker housing and the coordination of food services to a large Canadian oil and gas company. Over the term of the contract, the Fund will provide this management service which is aimed at providing streamlined camp and housing services. Management believes this agreement will be accretive to the Fund's operations.

See table below for selected financial and operational information for the Fund.

Selected Financial And Operating Information

The following is a summary of selected financial and operating information that has been derived from and should be read in conjunction with the consolidated financial statements for Black Diamond Income Fund.

Financial Highlights	
Total Revenue	5,608,565
Gross profit	3,699,680
Selling, general & administrative	1,212,783
EBITDA (1)	2,486,897
Net earnings	1,052,044
Capital expenditures	15,260,512
Property, Plant & Equipment (net)	45,280,207
Total assets (as at period end)	92,717,469
Long Term Debt	15,669,888
Reconciliation of Net earnings to EBITDA (1)	
Net earnings	1,052,044
Adjustments to net earnings:	
Depreciation & amortization	1,171,619
Interest expense	263,234
EBITDA	2,486,897
Operational Highlights (unaudited)	
Workforce Accomodation units in operation at end of period	494
Average units in operation for the period	318
Utilization	73%
Space Rental units in operation at end of period	423
Average units in operation for the period	351
Utilization	85%

Note:

(1) EBITDA is not a recognized measure of GAAP and does not have a standardized meaning prescribed by GAAP Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for further details.

Results Of Operations

The Fund completed its Initial Public Offering ("IPO") on September 26, 2006, and its first year end was December 31, 2006. As the first fiscal year covers a period of only ninety-seven days, this does not represent a normal operating year for the Fund and period over period comparative data is not available.

Revenue

Consolidated revenues generated for the period from inception on September 26, 2006, to December 31, 2006, (hereafter referred to as the "Period") were $5.61 million. Revenues are derived from the two operational fleets deployed by the Fund as well as from the provision of services. Workforce accommodation revenues were $3.81 million for the Period. Utilization of the workforce accommodation fleet averaged 73% for this period ranging from a low of 65% during October 2006 to a high of 78% during November 2006. The utilization is a reflection of the type of equipment the Fund deploys as well as the longer term nature of the rental contracts the Fund has favored. The accommodation units have some seasonality to their usage with a higher degree of utilization during the winter months. However, the Fund has taken a large degree of the seasonality out of its revenue generation due to the nature of the longer term, paid monthly contracts that the majority of the fleet is contracted under.

Revenues for the space rentals segment for the Period were $1.05 million. Utilization of the space rental fleet for the period ended December 31, 2006 averaged 85%.

The Fund's service division generated $1.29 million of revenue for the Period. 42% of this revenue is generated by providing service to the other divisions of the Fund and is eliminated on consolidation. The remaining 58% of the revenue is generated from third parties representing customers from across the workforce accommodation and space rental sectors.

Direct Costs & Gross Profit

Direct costs were $1.91 million for the Period resulting in a gross profit of $3.70 million or a gross profit margin of 66%. Direct costs attributable to the revenues in arriving at the gross profit are the labor, fuel, freight and maintenance required in maintaining, servicing and moving the units to the contracted sites. In addition, there are often opportunities for the Fund to sell some units from its fleet, rent equipment from third parties and re-rent the equipment, provide transportation services or to provide installation and other services to customers. These ancillary revenue streams are generally at lower gross margins than the fleet rental operations. Therefore, depending on the level of activity of these other areas of operations in a period, the gross profit margins may be affected. For the Period, approximately 48% of the revenues were derived from these ancillary revenue streams which have gross profit margins ranging from 11% to 34%.

Selling, General & Administrative Costs

Selling, general & administrative costs ("SG&A") including stock based compensation charges for the Period were $1.213 million or 21% of revenue. Within this figure, personnel costs were the largest item representing approximately 56% of the SG&A while other significant items included occupancy costs and insurance combining for 13%. Stock-based compensation charges included in the SG&A were $0.013 million. Stock based compensation was determined using the Black-Scholes

valuation method for options granted. The assumptions used in the valuation done during the Period were as follows: Dividend yield of 10%, average volatility of 35%, risk-free rate of 4% and an expected life of 5 years. This resulted in a value per option granted in the period of \$1.01. As at December 31, 2006, the Fund employed 14 people in sales and administrative positions. The majority of the roles required to obtain new contracts, manage the fleets and service personnel, as well as to staff a back office operation on a larger scale, are now in place for the Fund. As the Fund continues to add to its' scale of operations, personnel costs will not increase at the same rate and as a result management expects that the SG&A costs as a percentage of revenue will trend downward.

EBITDA

The Fund's Earnings before Income Taxes, Depreciation and Amortization ("EBITDA" see "Non-GAAP measures") was \$2.49 million for the Period. This represents an EBITDA margin of 48%. As noted above, this margin will fluctuate from period to period depending on the level and mixture of the revenues generated from the rental of the fleet assets as compared to the ancillary revenue streams such as transportation, installation, services and sublease. Also, as the SG&A as a percentage of revenue declines as the Fund adds to its economies of scale, the EBITDA margin would be expected to trend upwards.

Depreciation & Amortization

For the Period, the charge for depreciation and amortization was \$1.17 million. This included charges of \$0.81 million with respect to depreciation taken on the property and equipment of the Fund and \$0.36 million in respect to the amortization of the intangible assets and deferred financing fees. The intangible assets were valued and booked in respect of the purchase of the business from Black Diamond Leasing Inc. at the time of the initial public offering and have estimated useful lives ranging from 4 to 20 years. As a result of the transition to a new credit facility, the previously unamortized deferred finance costs of approximately \$0.12 million were expensed in the period.

Interest Expense

The Fund began the Period with no debt drawn on the credit facilities, as the proceeds of the IPO were used to extinguish the debt assumed upon the purchase of the business from Black Diamond Leasing Inc. Draws were then taken on the credit facility in place to fund capital expenditures throughout the Period. Interest expense for the Period was \$0.263 million. This represents interest that was charged on the credit facilities in place throughout the Period. On December 29, 2006 the Fund established a new credit facility, paying out the old one in its entirety. As a result of the early termination of the previous credit facility, the Fund incurred an interest payout penalty that is included in the interest cost for the Period.

Summary Of Quarterly Results

As the Fund only completed its IPO on September 26, 2006, operations for the 4 days to the end of September 2006 making up the third quarter of the 2006 fiscal year are immaterial.

Distributable Cash From Operations

The Fund declared distributions to unitholders of $2.01 million during the Period. This is $0.261 per unit for the Period, or the equivalent of $1.00 per unit on an annualized basis. A summary of the distributions declared is as follows:

September 2006	$85,470
October 2006	641,410
November 2006	641,410
December 2006	641,410
Total	$2,009,700

Distributable Cash from Operations (see "Non-GAAP measures") for the Period is as follows:

Cash flow from operating activities	$1,428,264
Maintenance capital expenditures	(174,000)
Distributable Cash from Operations	$1,254,264

Maintenance capital expenditures are capital expenditures incurred during the period to maintain existing levels of productive capacity and service or expenditures that were incurred to enhance the operational life of existing property and equipment. Growth capital expenditures are excluded from this calculation. On a go forward basis, management expects that future maintenance capital requirements of the Fund would trend toward five percent of the revenue received from the rental of the fleet units.

Distributions declared represent 160% of Distributable Cash from Operations (see "Non-GAAP measures"). For the Period, the shortfall in the Distributable Cash from Operations with respect to the distributions was funded through financing activities. During the Period, the changes in non-cash working capital skewed the cash available for distribution as it was a negative $0.81 million.

Cash flow from operations (cash flow from operating activities excluding the changes in non-cash working capital) for the period was $2.06 million after adjusting for the above mentioned maintenance capital. Distributions represent 97% of this adjusted cash flow from operations which management believes is more indicative of the cash generated by the operations in the Period which would be available for distribution to unitholders. Management believes that the payout ratio (see "Non-GAAP measures") in future periods will be substantially reduced as the Fund increases its' revenue in concert with the increase in the fleet asset base in which revenues are derived while at the same time realizing efficiencies of scale with respect to the overhead costs of the business.

With regards to the Fund's strategy and maintaining the debt component of its capital structure, management intends to utilize and maximize its credit facilities to fund future capital growth. Operating within the covenants of the credit facility, management expects to be able to finance the addition of fleet units for operations growth and thus enhance the generation of Distributable Cash from Operations.

See "Risks and Uncertainties" for a discussion on the changes in tax legislation in Canada and how they may impact the Fund's generation of Distributable Cash from Operations.

Liquidity & Capital Resources

As of December 31, 2006, the Fund had a working capital surplus balance of $2.59 million. The Fund also has an operating credit facility of $2.0 million and an acquisition credit facility of $30.0 million. As at December 31, 2006, the Fund had not drawn on the operating credit and had drawn down on the acquisition facility in the amount of $15.67 million. Both facilities are charged interest at an interest rate above the bank's prime rate based on the previous quarter's funded debt to EBITDA ratio. As at December 31, 2006 the interest rates being charged on the facilities were 6.50% and 6.75% respectively. Both facilities are interest-only with no principal obligations. All covenants as at December 31, 2006, had been satisfied. The Fund does not anticipate any covenant issues or restrictions in the future financing of its operations and capital expenditure programs.

At December 31, 2006, the Fund had the equivalent of 7.7 million units outstanding. This was a combination of 5.35 million Fund units issued and 23.55 million exchangeable partnership units outstanding which are exchangeable into Fund units at a rate of 10 exchangeable partnership units for 1 Fund unit. In addition, the Fund had issued 296,120 options pursuant to its Trust Unit option plan established in September 2006 in conjunction with the IPO.

Management believes that the ongoing cash generated from operations will be sufficient to allow it to meet ongoing requirements for maintenance costs, SG&A costs, interest costs incurred as well as distributions to unitholders. The Fund's actual cash generated from operations will be dependent upon future financial performance, which in turn will be subject to financial, business and other factors, including elements beyond Black Diamond's control. Management also believes that, dependent on capital and market conditions, the Fund has the ability to raise additional capital through the public and or private issuance of additional units, if required.

Outstanding Unit Data

The following table summarizes Black Diamond's capitalization as at February 26, 2007:

Trust units	5,345,174
Exchangeable partnership units	2,354,826
Trust unit options	296,120

The exchangeable partnership units are convertible into Fund Units at the option of the holder at any time prior to September 26, 2011 on the basis of one exchangeable partnership units for each one Fund Unit.

Capital Expenditures

For the Period, the Fund expended $15.26 million on additions to property and equipment. The additions to the property and equipment consisted of:

- $13.06 million on workforce accommodation structures and ancillary equipment rented along with these units
- $2.18 million on space rental structures with some ancillary equipment rented along with these units
- $0.02 million on computers, furniture and service related equipment

At December 31, 2006, the Fund had made capital expenditure commitments with key manufacturers of modular structures in the amount of $20 million for delivery throughout 2007. It is management's intention to meet the funding requirements for these commitments through a combination of internally generated cash flow and available funds from credit facilities.

Financial Instruments

All of the Fund's financial instruments as at December 31, 2006, relate to standard working capital and credit facility items. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no unusual off balance sheet arrangements and the Fund does not use any financial instruments such as derivatives. Of Black Diamond's financial instruments, only accounts receivable represents credit risk, and management views the credit risk related to accounts receivable as minimal.

Related Party Transactions

During the period from the IPO to December 31, 2006, the Fund did not conduct any operational business with related parties. As a result of the payment for the business acquired from Black Diamond Leasing Inc. and the transition of the cash management and working capital at the time of the IPO and shortly thereafter as well as the accrued distribution owing at December 31, 2006 on the Exchangeable Partnership Units, the Fund owes Black Diamond Leasing Inc. $0.88 million. Black Diamond Leasing Inc. is related to the Fund due to its ownership of all of the exchangeable partnership units and the common membership of the Board of Directors of that entity and the Fund.

Critical Accounting Policies & Estimates

Management believes that the accounting estimates that are critical to the financial statements relate to property and equipment, intangible assets, goodwill, unit based compensation and the determination of depreciation and amortization expense.

The preparation of financial statements in accordance with GAAP requires management to make assumptions and estimates that can have a material impact on the results of operations as reported on a periodic basis.

The value of property and equipment, intangible assets and goodwill is subject to market conditions in the industry sectors in which the Fund operates. Unit based compensation expense, associated with unit options at the date of grant, is subject to changes in the variables used in the valuation of the options such as changes in the risk free rate, unit price volatility and distribution yields. This estimate may vary due to changes in the actual unit price. Depreciation and amortization is determined using the estimated useful lives of the assets. These estimates could change due to a number of factors including unusual wear and tear, technology, change in economic circumstances and obsolescence. Such changes could have a material effect on the amount of future depreciation expense. See the notes to the consolidated financial statements for a schedule outlining the depreciation policies of the Fund.

While management applies judgment based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

Non-GAAP Measures

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ('GAAP'). Certain supplementary information and measures not recognized under GAAP are provided where management believes they assist the reader in understanding Black Diamond's results. These measures include:

EBITDA refers to earnings as determined in accordance with generally accepted accounting principles before interest expense, tax expense and depreciation and amortization. Black Diamond uses EBITDA primarily as a measure of operating performance. Management feels that the operating performance as determined by EBITDA is meaningful because it presents the performance of the operation on a basis which excludes the impact of how it has been financed.

EBITDA Margin is calculated by dividing EBITDA by the revenue for the period.

The following is a reconciliation of Net Income to EBITDA for the period from the IPO ending December 31, 2006:

Net income	1,052,044
Add:	
Depreciation and amortization	1,171,619
Interest	263,234
EBITDA	2,486,897

Distributable Cash from Operations is calculated as the cash flow from operating activities as defined by GAAP including the changes in non-cash working capital and adjusted for 1) maintenance capital expenditures made in the period, 2) funding of long term unfunded contractual obligations arising from operations and 3) restrictions on distributions arising from compliance with financial covenants at the date of the calculation. Maintenance capital expenditures are capital expenditures incurred during the period to maintain existing levels of productive capacity and service or expenditures that were incurred to enhance the operational life of existing property and equipment. Growth capital expenditures are excluded from this calculation. Management believes that Distributable Cash from Operations is a useful measure as it provides an indication of the cash generated by the operations of the business available for distribution. Funds not distributed are then available for re-investing in the business and funding the growth prospects of the Fund.

Cash flow from Operations is calculated as the Distributable Cash from Operations excluding the changes in non-cash working capital.

Gross Profit refers to revenues less direct costs, and prior to the deduction of selling, general and administrative costs, interest expense, tax expense, depreciation and amortization and any gains or losses on disposal of assets. Management believes that, in addition to net earnings, Gross Profit is a useful supplemental measure as it provides information of the contribution to earnings from the Fund's principal business activities.

Payout Ratio is calculated as the distributions declared for the period divided by the Distributable Cash from Operations.

Readers are cautioned that the Non-GAAP measures are not alternatives to measures under GAAP and should not, on their own, be construed as an indicator of the Company's performance or cash flows, a measure of liquidity or as a measure of actual return on the Units. These Non-GAAP measures should only be used in conjunction with the consolidated financial statements of Black Diamond Income Fund.

Risks And Uncertainties

The operations of Black Diamond face a number of risks and uncertainties in the normal course of business that may be beyond its control, but which could have a material adverse effect on the business' financial condition, results of operations or cash flow, and therefore possibly on the cash available for distribution. Some of these risks are summarized below. Additional risks and uncertainties that management may be unaware of may become important factors which affect the Fund. Identified below are the principal risks that affect our business and our ability to meet our financial goals. Additional information regarding the business risks faced by Black Diamond is outlined in the Fund's Annual Information Form.

Volatility of Industry Condition

The demand, pricing and terms for workforce accommodation and temporary work space largely depend upon the level of industry activity for Canadian resource companies and infrastructure development. Industry conditions are influenced by numerous factors over which the Fund has no control, including: the level of commodity prices; expectations about future commodity prices; the cost of exploring for, producing and delivering commodities; the expected rates of declining current production; the discovery rates of reserves; available infrastructure capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of large project-oriented customers to raise equity capital or debt financing. The level of activity in the Canadian resource production industry is volatile. No assurance can be given that expected trends in resource production activities will continue or that demand for workforce accommodation will reflect the level of activity in the industry. Any prolonged substantial reduction in resource prices would likely affect resource production levels and therefore affect the demand for services to oil and gas customers. A material decline in resource prices or Canadian industry activity could have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows and therefore on the distributions to Unitholders.

Competition

The Fund will provide workforce accommodation and temporary workspace solutions to various entities located in Western Canada and Southern Ontario. The workforce accommodation and temporary workspace business in which the Fund will operate is highly competitive. To be successful, the Fund must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which the Fund operates are service quality and availability, reliability and performance of the equipment used to perform its services, experience and reputation for service and price. As a result of competition, the Fund may be unable to continue to provide its present services or to acquire additional business opportunities, which may affect the Fund's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Sources, Pricing and Availability of Equipment

The Fund sources its equipment from a variety of suppliers, most of whom are located in Canada and the United States. Should any suppliers be unable to provide the necessary equipment or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows and therefore on the distributable income to be distributed to Unitholders.

Workforce Availability

The Fund's ability to provide high quality and timely service to our customers through the site services division is dependent on the attraction and retention of well trained and experienced employees. Current market conditions and the demand for the types of skilled personnel has resulted in a shortage of qualified people in the industry. The Fund needs to continue to attract and retain good employees to ensure there is the ability to provide high quality service and to be able to take advantage of growth opportunities.

Changes in Canadian Taxation Legislation

On October 31, 2006, the Federal Minister of Finance proposed to apply a tax at the fund level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders (the "October 31 Proposals"). On December 21, 2006, the Federal Minister of Finance released draft legislation to implement the October 31, 2006, Proposals pursuant to which, commencing January 1, 2011, (provided the Fund only experiences "normal growth" and no "undue expansion" before then) certain distributions from the Fund which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the trust level. Assuming the October 31 Proposals are ultimately enacted in their form, the implementation of such legislation would be expected to result in adverse tax consequences to the Fund and certain Unitholders (including most particularly Unitholders that are tax deferred or non-residents of Canada) and may impact cash distributions from the Fund. It is not known at this time when the October 31 Proposals will be enacted by Parliament, if at all, or whether the October 31 Proposals will be enacted in the form currently proposed.

As a result of the uncertainty with regard to the legislation, management has not made any decisions with respect to the future capital structure of the Fund and has many options available to it including operating under the current trust structure, converting to a public corporation or converting to a privately held organization.

Also as a result of the above uncertainty, management is not in a position to determine what the impact, if any, will be on the generation of cash available for distribution to unitholders. If the Fund remains structured as an income trust (i.e. status quo), then beginning in 2011, it can be assumed that there will be a tax incurred at the Fund level prior to the distribution of cash to unitholders. This would have the effect of reducing the cash available to unitholders. The current proposals include a tax credit being made available to unitholders, so unitholders that hold their investment in a taxable account will be no worse off than they are currently as they would be given recognition of the taxes incurred at the Fund level prior to distribution.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Fund and its principal customers. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Fund and its operations and financial condition.

See the risk factors described in the Fund's annual information form.

Disclosure Controls And Procedures

The Fund's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Fund's disclosure controls and procedures to provide reasonable assurance that material information related to the Fund is made known. In addition, internal controls over financial reporting have been designed or have caused to be designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with the Fund's GAAP. They are assisted in these responsibilities by other members of the Fund's senior management team.

The Fund has conducted a review and evaluation of its disclosure controls and procedures. The Fund's Chief Executive Officer and Chief Financial Officer conclude that as at December 31, 2006, the Fund's disclosure controls and procedures are adequate to provide reasonable assurance that material information related to the Fund is made known to them by others within the Fund.

During the Fund's assessment of its system of internal controls over financial reporting as defined under Multilateral Instrument 52-109, the Fund identified certain weaknesses in internal controls over financial reporting:

a) due to the limited number of staff, it is not feasible to achieve the complete segregation of incompatible duties; and

b) the information technology programs utilized in the business and the technology infrastructure are not overly complex, so are outsourced to a third party.

The broad scope of senior management's oversight and strong entity level control are expected to compensate for any individual internal control weakness. In addition, the weaknesses identified are mitigated by: the active involvement of senior management in all the affairs of the Fund; open lines of communication within the Fund and its divisions; the present levels of activities and transactions within the Fund being readily transparent; the thorough review of the Fund's financial statements by management and the establishment of a whistle-blower policy. However, these mitigating factors will not necessarily prevent the likelihood that a material misstatement will occur as a result of the aforesaid weaknesses in the Fund's internal controls over financial reporting.

It should be noted that a control system, including the Fund's disclosure and internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls will prevent all errors or fraud.

Outlook

The outlook for Black Diamond remains positive. The Fund added a significant number of units to its rental fleets in the fourth quarter. As a result, the Fund enters its 2007 fiscal year with a substantially larger operating platform. This operating platform continues to be weighted towards large workforce accommodation facilities operating under long term rental contracts. The majority of the Fund's rental revenue is being generated from large infrastructure projects in and around the Alberta Oil Sands. These factors provide the Fund's Management with a high degree of visibility for revenues and cash flow over the next several quarters. Based on this visibility, Management is confident that, should the current operating environment remain stable, the Fund will be able to generate distributable cash adequate to maintain current monthly distributions while meeting its target payout ratio of approximately 60%.

The Fund has set a growth capital budget of just over $25 million of which approximately $20 million has already been committed. This capital is being directed to fleet additions with a continued weighting towards large accommodation facilities in Black Diamond Camps and towards increasing the size of both the Alberta and Ontario space rentals fleets of BOXX Modular. The Fund has not, at this time, committed to any additional drill camps or drilling related accommodation equipment. This organic growth of our rental fleets throughout 2007 will allow the Fund to continue to build its revenue base. Management is confident that customer demand and current opportunities, specifically in the oil sands region, will provide adequate market absorption for this additional equipment.

Utilization in the workforce accommodation fleet is expected to decline in the second and third quarter given the traditional seasonality of the Alberta oil industry. However, given the volume of long term monthly rental contracts in place, this decline is expected to be moderate. Almost half of the Fund's drill camp fleet is committed under long term paid monthly contracts. This will insulate the Fund from the current slow down in drilling activity and from the seasonality of drilling related revenues.

Utilization and rental rates for the BOXX Modular division's space rentals units remain consistent and high. Growth of this segment is promising and offers a counterbalance to the more cyclical nature of the Fund's operations in the energy sector.

The Black Diamond Site Services division continues to maintain its operating levels through maintenance and support commitments with a variety of customers in Alberta and British Columbia. Additional large installation projects are expected in early spring and summer which will significantly add to the backlog and growth of this division.

The Fund recently entered into a long term agreement with a large Canadian oil and gas company whereby the Fund will provide management of field camps, worker housing, and coordination of food services to the company. This agreement will generate monthly management fees and service revenue. In addition, there is the opportunity for the Fund to acquire additional fleet equipment and provide it to the company on long term rental contracts. Management considers this a significant strategic opportunity that will prove to be accretive to the Fund.

Despite the recent declines in oil and gas commodity prices, we continue to find opportunities to deploy our rental equipment on long term contracts. Management believes that these long term commitments, which are predominantly related to long term energy resources development projects in Northern Alberta, will continue to provide a stable revenue stream and continued growth opportunities for the Fund. Management further believes that the large oilsands related projects will remain viable in the current commodity price environment.

Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or at the Fund's website at www.blackdiamondincomefund.com.

Trevor Haynes
President
Chief Executive Officer

Michael Burnyeat
Vice President &
Chief Financial Officer

Notes

Contents enclosed on recycled paper.

Corporate Directory

Corporate Office

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Robert Brawn (5)
David E. Butler (1) (3)
Trevor Haynes
William Gallacher (4)
Minaz Kassam, C.A. (2)
Steven Stein
Robert Wagemakers (3) (5)

Notes:
(1) Lead Director.
(2) Chairman of the Audit Committee.
(3) Member of the Audit Committee.
(4) Chairman of the Compensation, Nominating and Corporate Governance Committee.
(5) Member of the Compensation, Nominating and Corporate Governance Committee.

Officers

Trevor Haynes,
President and Chief Executive Officer

Steven Stein,
Vice President and Chief Operating Officer

Michael Burnyeat, CA, CFA,
Vice President Finance and Chief Financial Officer

J.G. (Jeff) Lawson, LLB,
Corporate Secretary

Solicitors

Burnet, Duckworth & Palmer LLP
Barristers & Solicitors
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Bankers

Bank of Montreal
Calgary, Alberta

Stock Exchange Trading Symbol

TSX – Trading Symbol BDI.UN

Registrar and Transfer Agent

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Distributions

Black Diamond Income Fund's Board of Directors approves on a monthly basis distributions to Unitholders. The current distribution is $0.0833 ($1.00 per annum) per trust unit.

Notice of Annual Meeting

The Annual Meeting of Black Diamond Income Fund will be held on Wednesday, May 2, 2007, at 3:00 p.m., at The Calgary Petroleum Club, McMurray Room, 319- 5 Avenue SW, Calgary, AB T2P 0L5

Designed by The McIvor Marketing Corporation

BLACK DIAMOND
INCOME FUND

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